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**FISCAL IMPACT STATEMENT**

**LS 7083**

**BILL NUMBER:** HB 1282

**NOTE PREPARED:** Jan 17, 2006

**BILL AMENDED:**

**SUBJECT:** Elimination of School Property Taxes.

**FIRST AUTHOR:** Rep. Murphy

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill terminates the authority of a school corporation to impose a property tax for educational purposes other than to repay an obligation that: (1) was entered into before April 1, 2006; and (2) includes a pledge requiring the school corporation to repay the obligation only from property taxes. It permits a school corporation to impose a Local Income for Education Tax (LIET) against adjusted gross income in the taxing unit. The bill reduces the state Adjusted Gross Income Tax imposed on individuals. It eliminates distributions to school corporations from the Property Tax Replacement Fund.

The bill provides for an additional state-funded ADM flat grant to school corporations and charter schools.

The bill requires school corporations to use the grant to reduce the local income tax for education tax rates imposed for debt service and capital projects. The bill also makes an appropriation and makes other related changes.

**Effective Date:** July 1, 2006; January 1, 2007.

**Summary of Net State Impact:** The bill reduces the expenditures for PTRC and Homestead Credits and also reduces the individual AGI Tax rate from 3.4% to 2.2%. The following table shows the approximate fiscal impact.

FY	PTRC & Homestead Expenditure Reductions	Income Tax Revenue Reductions	State Savings
2007	(\$1,667.0 M)	(\$798.1 M)	\$868.9 M
2008	(\$1,733.7 M)	(\$1,644.1 M)	\$89.6 M
2009	(\$1,803.2 M)	(\$1,693.4 M)	\$109.8 M

**Explanation of State Expenditures:** *PTRC & Homestead:* The elimination of the school property taxes would reduce the state's PTRC and homestead credits. The bill reduces the appropriation and distribution of PTRC and Homestead Credits by \$1,667 M for FY 2007. Future expenditures for PTRC and Homestead Credits would also be reduced due to the elimination of school property taxes.

*Department of State Revenue (DOR):* DOR is required to provide employers and taxpayers with adequate information to determine the total tax rate of a particular tax area and the tax area where the taxpayer has an obligation to pay the LIET. The number of taxing areas would be approximately 300, the current number of school corporations. DOR would also have to establish separate accounts for each taxing unit and provide information to the unit on the amount of collections, status of pending tax assessments, amount of refunds to taxpayers, transfers from the account to correct errors, and provide annual forecasts of revenue. The cost for developing a program to provide the required information could be significant.

*Department of Local Government Finance (DLGF):* DLGF would be responsible for administering the property tax freeze component of the bill. DLGF would continue to hear appeals to levies and certify budgets and levies. The DLGF is also required to provide LIET projections to schools.

*Budget Agency:* The Budget Agency is required to make a projection of the LIET for each taxing unit and provide it to the DLGF. The agency is to work with the DLGF and the DOR in administering the program. The impact on the Budget Agency to make these projections of LIET for over 300 schools is unknown but could be significant.

*ADM Flat Grant:* The bill distributes up to \$100 M of corporate Adjusted Gross Income Tax revenue to reduce the LIET needed to fund school debt service. If the school does not need the distribution to reduce debt service, then it can be used in the school's capital projects fund.

**Explanation of State Revenues:** The bill reduces the individual AGI Tax rate from 3.4% to 2.2%. The reduction in revenue is estimated to be \$798.1 M for FY 2007, \$1,644.1 M for FY 2008, and \$1,693.4 M for FY 2009. The bill also requires all the income tax be deposited in the state General Fund. Currently, 14% is deposited in the state Property Tax Relief Fund (PTRF).

The bill changes the percentage of the state Sales Tax that goes to the state General Fund. It increases the distribution of the Sales Tax to the General Fund from 49.192% to 66.306% and reduces the amount going to the PTRF from 50% to 32.886%. The bill would shift about \$472 M in FY 2007 and \$972 M in FY 2008 of Sales Tax revenue from the PTRF to the state General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** The bill provides schools with an alternative source of tax revenue, LIET, to replace revenue lost as the result of the elimination of the school's ability to levy property taxes. The income tax would be made in 11 equal monthly distributions beginning in February; property taxes are distributed in June and December. The LIET would be used to finance school functions instead of property taxes. The bill provides for a conversion of a property tax rate to an income tax rate that a school could levy.

The bill changes local school property tax calculation in the school formula to a local school income tax levy. The bill would apply the current property tax rate equalization concept in the school formula to the income tax. The current property tax controls on funds other than the General Fund would continue to apply, but the controls would be converted to an income tax levy or rate control.

School property taxes for CY 2007 are projected to be about \$4.45 B. The LIET rate needed to generate the same revenue would be about 3.25%. The data is not currently available to project the LIET rates that would be needed on a school-by-school basis to replace their property tax revenue. The income tax rate would vary like the current property tax rates from school to school and could change the ability of a school to raise local revenue. A school with a lot of assessed value per student could have a low adjusted gross income per student. The opposite could also be true.

The bill would also shift the financing of local schools from businesses to individuals. Currently, businesses pay over 50% of the property taxes that schools receive.

**State Agencies Affected:** Department of Local Government Finance; Department of State Revenue; Budget Agency.

**Local Agencies Affected:** Local Schools.

**Information Sources:** Department of Local Government Finance database.

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